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SOVIET DEFENSE SPENDING AND ECONOMIC POLICIES

Cabinet Briefing

6 December 1967

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5 December 1967

DCI BRIEFING NOTES
FOR THE CABINET

SOVIET DEFENSE SPENDING AND ECONOMIC POLICIES

- I. The military and economic analysts at CIA who deal with Soviet military and space expenditures face two major problems.
 - A. First, because the Soviets conceal a good deal of their total military spending, our analysts must match the published Soviet budget figures against all of the evidence we have, on all known military and space programs, and work out the actual costs in detail. In this way, we arrive at our own figure in rubles for total Soviet expenditures--announced and/or concealed.
 - B. Second, in order to permit meaningful comparisons by our own standards, the analysts calculate what the Soviet program would cost in dollars in the United States. This is necessary because of the unrealistic official exchange rate, and because of the inherent differences in the two economies.

(TABLE, U.S. vs SOVIET MILITARY AND SPACE SPENDING, 1967)

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US-USSR: MILITARY & SPACE SPENDING-1967

	<u>Billion Dollars</u>	
	US (Fiscal Year)	USSR* (Calendar Year)
Strategic Offense Forces	4.5	6.3
Strategic Defense Forces	1.7	5.1
General Purpose Forces	33.6	16.3
RDTE & Space	14.9	13.2
Command and General Support	28.2	14.9
TOTAL	<u>83.0</u>	<u>55.7</u>

*The figures on Soviet spending show the general size of various programs in terms of what they would cost in the US.

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II. Analyzed by these methods, Soviet military and space spending in Calendar 1967 was the highest since World War II:

20.4 billion rubles (equivalent \$56 billion)

- A. In other words, the Soviets, with an economy less than half the size of ours, are spending roughly as much for defense and space as we are, excluding the costs of Vietnam.
- B. For the past five years, the Soviet defense and space effort, in dollar terms, has averaged 85 percent of what we have been spending on the same programs.
- C. This chart compares the dollar cost of the comparable U.S. and Soviet programs for 1967.
- D. They are almost matching us in space, research, development, testing and evaluation.
- E. They are spending 40 percent more on strategic offense: Soviets \$ 6.3 billion, U.S. \$ 4.5 billion.
- F. They are spending three times as much on strategic defense: Soviets \$5.1 billion, U.S. \$ 1.7 billion.

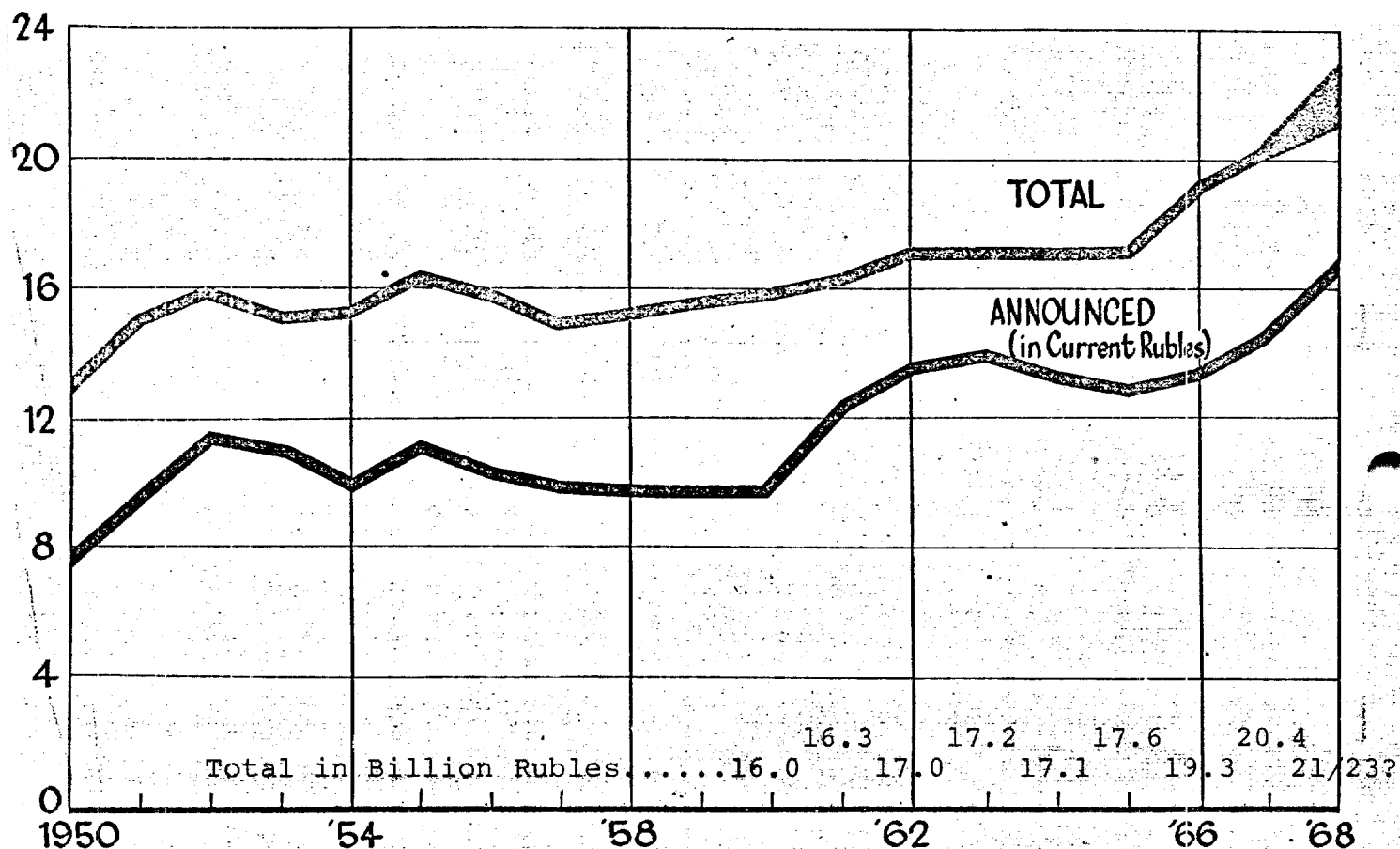
(1. I should note that in 1967, U.S. spending on these two missions is low because Polaris and Minuteman programs are ending, and major costs for Poseidon, Sentinel, and Minuteman MIRV re-fits have not begun to show up.)

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USSR:

COMPARISON OF ANNOUNCED DEFENSE BUDGET & ESTIMATED TOTAL MILITARY & SPACE EXPENDITURES

BILLIONS OF RUBLES IN 1955 PRICES



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G. Total U.S. expenditures are larger,
(U.S. \$ 83 billion, Soviets \$ 55.7 billion)
mainly because
of our larger expenditures for general purpose forces, and for command and general support--the two categories in which the expenditures attributable to Vietnam have the most impact.

(CHART, ANNOUNCED vs. TOTAL SOVIET MILITARY SPENDING)

III. On October 10, the Supreme Soviet was informed that the defense budget for 1968 will be increased by 15 percent. This is about twice the annual rate of increase for the past two years.

- A. The budget for science will be increased almost 11 percent. This budget probably covers the bulk of research and development for both space and defense.
- B. As this chart shows, total Soviet spending for the military establishment, the nuclear program, and space runs considerably higher each year than the explicitly announced budget figures. We estimate that with the announced increases, total 1968 spending will be at least 21 to 23 billion rubles, or in the vicinity of \$ 60 billion in equivalent dollar costs.

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(chart)

C. We believe that no single program is likely to get the lion's share of the announced increase. It will be spread over a number of programs, and will add to over-all Soviet military strength.

IV. The Soviet military leaders apparently made their case with the Politburo, not by arguing any one over-riding need, but because the political and economic climate was favorable for an increase.

A. There have been two successive good-to-excellent harvests.

B. Industrial production has been growing eight percent a year.

C. The consumer has been getting a significantly bigger piece of the pie for two years as a 50th anniversary present.

D. For the moment, the Kremlin has decided it can provide both guns and butter, but as we analyze the latest economic decisions, industry and particularly agriculture are going to have to pay for this.

E. Major sectors of industry will receive less in the form of investment funds, and as a result must cut back their 1970 production goals.

1. Chemicals, for instance, are taking a 30 percent cut in investments planned through 1970, so the production target has been lowered 15 to 20 percent.

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- F. Two years ago, the Kremlin leaders launched a big program of investments in agriculture, as insurance against another bad year like 1963.
1. That, you will recall, was when the Soviets had such a poor harvest that Khrushchev had to import about 10 million tons of wheat, mainly from Canada.
 2. The Russians referred to this sardonically as "Khrushchev's agricultural miracle." They said he planted wheat in the "New Lands" of Kazakhstan, and then harvested it in Canada.
- G. The men who followed Khrushchev had this in mind when they planned investments in agriculture for 1966 to 1970, but now they appear to be gambling on continued good harvests.
1. The investments are being reduced.
 2. The rate of increase in fertilizer production is to be cut in half in 1968.
 3. Farm machinery output, supposed to increase sharply, has leveled off, even declined in some categories.

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- V. The consumer--the Soviet man-in-the-street--is relatively well off for the moment, but he is still shabbily treated in comparison to his Western European counterpart.
- A. His cash income has reached a new high, and he can expect further increases between now and 1970.
- B. He can find an increasing supply of things like refrigerators and television sets in the stores.
- C. Clothing supplies have increased markedly, and there is better quality, thanks in part to about \$100 million in imports from the West in 1967.
- D. On the other hand, the Russian consumer is not eating, living, or riding the way he wants to.
1. Only a trickle of automobiles is reaching the market. Production of passenger cars may reach about 700,000 in 1970, but only a small fraction will be sold for private use in the U.S.S.R. A Czech or an East German has a better chance of owning a car than a Russian.

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2. Housing construction is lagging as usual. The past year added only two square feet per capita, giving each Soviet citizen 70 square feet of living space. This is barely half of what the Soviets themselves consider acceptable by health and sanitation norms, and less than a quarter of the comparable U.S. figure ^{which is} 300 square feet in 1961.

3. As for food, what the Russian consumer really wants is more meat, milk and other quality foods, and less reliance on bread and potatoes. This is placed in jeopardy by the cut-back in agricultural investment.

E. Even in this relatively good year, the Soviet man-in-the-street has to stand in line for hours to buy what he wants, and then he runs into spot shortages, shoddy production, and has to take something that doesn't fit because they don't have it in his size.

F. One thing in good supply is sardonic Russian grumbling about these consumer problems. One story tells of the visitor who was looking

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for the Soviet cosmonaut, Colonel Yuri Gagarin.

A neighbor told him that Colonel Gagarin was just orbiting in outer space, and would be home in two or three hours.

Well, where was Mrs. Gagarin?

Oh, she had gone to the market to try to buy some meat, and wouldn't be home for another five hours.

- G. The new economic decisions, then, are designed to increase military strength without damaging such improvements as there have been in the life of the Soviet consumer. We believe, however, that they are bound to affect him in the long run.

1. When you cut back on the investments which are meant to produce more steel, more electric power, and more machine tools for industry in general, you are bound to find sooner or later that you cannot turn out as many washing machines, refrigerators, and television sets.

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VI. In summary, it appears to me that what the Kremlin leaders have done is to reach another one of their constant compromises on the allocation of critical resources.

- A. As a compromise, the 1968 plan is probably not fully satisfactory to any of the rival interests, although collectively it may meet the demands of the moment.
- B. There is already some carping in the Politburo on the part of the losers.
- C. If long-term growth rates fall off, or if agricultural production stagnates, these decisions will probably come back to haunt the leadership.
- D. The budget for defense and space will be the biggest in Soviet history, but it is at the expense of the future growth of the entire Soviet economy.

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